KANE INVESTMENT CORP.

1999 Annual Report

Corporate Profile

Kane Investment Corp. is a real estate investment and development company with a growing portfolio of commercial and industrial properties in Western Canada and the U.S.A. Focus is on the acquisition and development of investment grade revenue properties in strong markets to which management can add value. The Company's mission is to increase shareholder value by building a portfolio of quality commercial and industrial real estate in markets, which represent solid long-term growth. The Company is committed to achieving significant growth while maintaining a conservative approach to risk. Its well qualified management team, backed by an experienced and professional Board of Directors, has established a solid foundation for growth.

Highlights

Financial

- Capital assets have a market value of approx.$33 million ($20.9 million at book value).
- Revenue increased 67.68% to $2.2 million. Revenue is projected to increase to $2,847,000 for the year ending May 31, 2000, an increase of 29.4% over revenue for year ended May 31st, 1999. As of the date of writing, leases in place have rental value of $3,133,000, which will not be fully reflected until fiscal 2001.
- Cash flow from operations was $393,000 ($0.06 per share) for the year as compared to $420,000 ($0.07 per share) at May 31st, 1998. Projections for year ending May 31, 2000 are for cash flow of approx. $.11 per common share.

On the basis of current market values, the company's debt-to-equity ratio remains at a healthy 1.8:1.

Operations

- The Company's portfolio comprises 417,621 square feet of leaseable space. This includes the 122,778 square foot Sable Tech Centre, a **Kane Investment Corp** development that was completed within this fiscal year. The **Sable Tech Centre** is an R&D/Flex complex located just off Hi-way 225 at Sable Blvd. & 6th Ave. Denver, Colorado (Photo above). The location and profile of this property anchored by Mikron Corporation (formerly Custom Engineering), ADT Security Services Inc. and the Denver Post provides for solid long-term cash flow and capital appreciation.
- Occupancy of all properties at May 31st, 1999 was 94%, and has since increased to 100% with the final lease-up of Sable Tech Centre.

Presidents Message

Fiscal 1999 for **Kane Investment Corp** in both the Calgary and Denver markets was a year in which the rapid expansion commenced in 1998 was solidified.

In Calgary revenues increased 33.45% year over year through lease renewals and releasing. Revenues in Calgary are expected to increase by 5% for fiscal 2000. For first half of calendar 1999 Calgary Industrial Market vacancy remained flat at 3% while availability increased from 4.1% to 4.8%. Kane experienced less than 0.5% vacancy during this same period. Continued strong demand from all segments of the Industrial Market continues to push lease rates and building values upward albeit at a slower pace than witnessed in fiscal 1998.

Denver revenues increased 135% in fiscal 1999. Our attention during 1999 was directed at the lease-up of 122,778 square foot R&D/ Flex complex, which is now 100% leased.

The Denver Industrial Market is holding steady, vacancy showed a slight increase in the first half of calendar 1999, from 6.88% to 7.47%, with total inventory increasing from 137 to 139.8 million square feet, an increase of 2%. Rents for R&D/Flex buildings such as **Sable Tech Centre** continued to perform more like a new generation of single-story office space, achieving U.S. $8 - $12.00 per square foot. Demand by high-tech companies, companies dependant on technology and tenants seeking an acceptable and more economical alternative to traditional office space have brought R&D/Flex space into its own. Rental rates for traditional multi-tenant office/warehouse remains steady.

Management of **Kane Investment Corp** wishes to emphasize to its shareholders that the market value of all **Kane Investment Corp** properties is $33 million compared to a book value of $21million. This results in a net asset value per common share of approximately $2.00. Kane's debt / equity ratio is a solid 1.8:1 at current market values of $33 million. Earnings per share dipped to $0.023 in fiscal 1999 from $0.043 in 1998 due to costs associated with the completion of Sable Tech Centre. Earnings per share are expected to increase to $.06 per share for the year ending May 31, 2000. Upon full recognition of all leases now in place earnings per share are projected to increase to $0.10 per common share, with cashflow per common share increasing to $0.16. These revenues will be fully reflected in fiscal 2001.This bodes well for the Company's future and its shareholders.

Kane has undertaken initiatives to assess the Company's computer systems, mechanical systems and tenant response relative to the year 2000. Kane has ensured its computer hardware is in compliance and acquired new property management and accounting software to ensure year 2000 compatibility.

We look forward to continued solid growth and increasing profits over the coming years.

We wish to thank all our shareholders for their continuing support and confidence in the Company.

Hardy Nielsen

Hardy Nielsen
President & Chief Executive Officer

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of **Kane Investment Corp.** as at May 31, 1999 and 1998 and the consolidated statements of earnings and deficit and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 1999 and 1998, and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Deloitte & Touche LLP

Calgary, Alberta — Chartered Accountants

July 26, 1999

KANE INVESTMENT CORP.

Consolidated Statements of Earnings and Deficit

Years Ended May 31, 1999 and 1998

	1999 (000s) $	1998 (000s) $
REVENUE		
Rentals	**2,200**	1,305
Interest	**6**	7
	2,206	1,312
EXPENSES		
Depreciation and amortization	**245**	142
Foreign currency translation loss (gain)	**59**	(2)
General and administrative	**434**	268
Interest on long-term debt	**1,182**	564
Property and operating costs	**116**	20
	2,036	992
EARNINGS BEFORE INCOME TAXES	**170**	320
PROVISION FOR INCOME TAXES (Note 8)	**22**	42
NET EARNINGS	**148**	278
DEFICIT, BEGINNING OF YEAR	**(616)**	(894)
DEFICIT, END OF YEAR	**(468)**	(616)
NET EARNINGS PER COMMON SHARE	**0.023**	0.043

KANE INVESTMENT CORP.

Consolidated Balance Sheets

May 31, 1999 and 1998

	1999 (000s) $	1998 (000s) $
ASSETS		
Capital assets (Note 4)	**20,897**	14,646
Deferred charges (Note 5)	**907**	666
Prepaid expenses and deposits	**44**	88
Accounts receivable	**58**	27
Cash	**218**	595
	22,124	16,022
LIABILITIES		
Long-term debt (Note 6)	**18,371**	12,662
Rental deposits	**146**	211
Accrued interest	**109**	61
Income taxes payable	**22**	42
Accounts payable and accrued liabilities	**2,754**	2,472
	21,402	15,448
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	**1,169**	1,169
Contributed surplus (Note 7)	**21**	21
Deficit	**(468)**	(616)
	722	574
	22,124	16,022

APPROVED BY THE BOARD

.... **Director**

.... **Director**

KANE INVESTMENT CORP.

Consolidated Statements of Changes in Financial Position

Years Ended May 31, 1999 and 1998

	1999 (000s) $	1998 (000s) $
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Net earnings	**148**	278
Items not affecting cash		
Depreciation and amortization	**245**	142
Amortization of deferred commission costs	**119**	55
Amortization of deferred foreign currency translation loss	**43**	11
	555	486
Changes in non-cash operating working capital items		
Accounts receivable	**(31)**	5
Prepaid expenses and deposits	**44**	706
Notes receivable	**-**	29
Accounts payable and accrued liabilities	**282**	2,165
Income taxes payable	**(20)**	16
Accrued interest	**48**	35
Rental deposits	**(65)**	117
	813	3,559
FINANCING		
Deferred charges incurred	**(403)**	(489)
Proceeds on sale of common shares	**-**	28
Proceeds from long-term debt	**9,135**	6,110
Repayment of long-term debt	**(3,426)**	(183)
	5,306	5,466
INVESTING		
Acquisition of capital assets	**(6,496)**	(8,623)
NET CASH (OUTFLOW) INFLOW	**(377)**	402
CASH POSITION, BEGINNING OF YEAR	**595**	193
CASH POSITION, END OF YEAR	**218**	595

Notes to the Consolidated Financial Statements

Years Ended May 31, 1999 and 1998

1. NATURE OF BUSINESS

The Company was incorporated under the Business Corporations Act of Alberta on December 4, 1986 and commenced operations on July 31, 1987. The Company's primary business activity is the rental of commercial real estate property in Calgary, Alberta and Denver, Colorado.

2. BASIS OF PRESENTATION

These consolidated financial statements include the accounts of Kane Investment Corp. and its wholly owned subsidiaries, Kane Holdings (U.S) Inc., Kane Investments (USA), Inc. and Kane Investments (6th & Sable), Inc.

3. SIGNIFICANT ACCOUNTING POLICIES

Capital assets

Capital assets are recorded at cost. Buildings are depreciated using the sinking-fund method over 30 years at mortgage interest rates. The parking lot is depreciated using the straight-line method over five years. Leasehold improvements are amortized using the straight-line method over the term of the lease.

Deferred commission costs

These costs represent fees paid by the Company to secure leases and mortgages for properties owned by the Company. These costs are amortized over the initial term of the lease or mortgage and vary from 12 to 144 months.

Foreign currency translation

The Company's foreign subsidiaries are classified as integrated foreign operations, and the accounts are translated using the temporal method. Monetary assets and liabilities are translated at the exchange rate prevailing at the year-end, and non-monetary assets and liabilities are translated at the historical exchange rates. Revenue and expense items are translated at the approximate exchange rates prevailing at the time of the transaction. All exchange gains and losses are included in earnings, except for the unrealized exchange loss on the translation of long-term debt, which is deferred and amortized over the remaining life of the debt.

4. CAPITAL ASSETS

	1999			1998
	Cost (000s) $	Accumulated Depreciation and Amortization (000s) $	**Net Book Value (000s) $**	Net Book Value (000s) $
Land	3,436	-	**3,436**	3,393
Buildings	17,569	543	**17,026**	6,485
Building under construction	-	-	-	4,518
Parking lot	45	9	**36**	45
Leasehold improvements	930	531	**399**	205
	21,980	1,083	**20,897**	14,646

5. DEFERRED CHARGES

	1999 (000s) $	1998 (000s) $
Commission costs	**780**	364
Foreign currency translation loss	**123**	302
Incorporation costs	**4**	-
	907	666

Notes to the Consolidated Financial Statements

Years Ended May 31, 1999 and 1998

6. LONG-TERM DEBT

	1999 (000s) $	1998 (000s) $
Standard Life Assurance Company first mortgages		
Interest at 8.5% per annum, payable in monthly installments of $21,894 including principal and interest, maturing January 15, 2001	**2,360**	2,422
Interest at 8.5% per annum, payable in monthly installments of $17,816 including principal and interest, maturing January 15, 2001	**1,920**	1,971
Mutual Life of Canada first mortgage		
Interest at 7.5 % per annum, payable in monthly installments of $24,357 including principal and interest, maturing January 15, 2001	**3,004**	3,050
First Federal Savings Bank of Colorado		
First mortgage of $1,226,933 ($832,383 U.S.), interest at 8.4% per annum, payable in monthly installments of $21,300 ($14,451 U.S.) including principal and interest, maturing July 1, 2005	**1,227**	1,357
Second mortgage of $724,931 ($491,812 U.S.), interest at 8.75% per annum, payable in monthly installments of $12,842 ($8,713 U.S.) including principal and interest, maturing July 1, 2005	**725**	802
Key Bank National Association		
Construction loan of $9,135,127 ($6,197,509 U.S.), interest at 7.75%, payable in monthly installments of $60,964, ($41,360 U.S.) interest only, maturing January 1, 2000	**9,135**	-
Montex Property Management Inc.		
Construction loan of $3,059,910 ($2,100,000 U.S.), interest at 15% per annum, payable in monthly installments of $38,249, ($26,250 U.S.) interest only, maturing September 30, 1998	-	3,060
	18,371	12,662

Notes to the Consolidated Financial Statements

Years Ended May 31, 1999 and 1998

6. LONG-TERM DEBT (Continued)

The mortgages and construction loan are secured by specific property and an assignment of rents and leases.

The Key Bank National Association construction loan is due on January 1, 2000 and it is the intention of the Company to replace this short-term loan with a long-term mortgage. The Company expects the mortgage to be amortized over 30 years with an interest rate of approximately 8%, over a seven-year term.

Principal amounts due in each of the next five fiscal years, assuming the terms of the re-financing as noted above, are as follows:

	(000s) $
2000	**526**
2001	**7,446**
2002	**389**
2003	**423**
2004	**460**

7. SHARE CAPITAL

Authorized
- Unlimited number of common voting shares
- Unlimited number of preferred shares which may be issued in one or more series

	Number of Shares (000s)	*Amount* $ (000s)
Balance May 31, 1997	6,455	**1,163**
Repurchased and held for resale	-	**6**
Balance May 31, 1998 and 1999	6,455	**1,169**

7. SHARE CAPITAL (Continued)

During 1998, the Company sold 45,000 of its shares previously acquired for resale for total cash consideration of $27,610. Of this amount $6,390 has been applied to share capital and $21,220 to contributed surplus.

On December 8, 1997, the shareholders of the Company approved a stock option plan, which will allow the directors of the Company to grant options to purchase shares of the Company to directors, officers and employees of the Company. No options have been granted under this stock option plan.

8. INCOME TAXES

The purchase of land and building from a company controlled by a shareholder in August 1987 results in a difference between the carrying value of the assets in the financial statements and their adjusted cost base for tax. The cost for book purposes is approximately $2,438,930, and the cost for tax purposes is approximately $1,742,471. Depreciation in the financial statements is calculated based on the cost for book purposes at the date of purchase, whereas capital cost allowance for tax purposes is based on the undepreciated cost to the former owners at that date.

In the event of a sale of these assets, the Company is subject to income taxes as follows:

a) As income, on the excess of the proceeds over the undepreciated cost for tax purposes to the extent that proceeds are equal to the original cost to the former owners and;

b) As a capital gain, on the proceeds in excess of the original cost to the former owners.

During the year, the Company applied losses carried forward from prior years in the amount of $120,767 (1998 - $36,417) to reduce Canadian taxable income to zero.

The Company has losses which can be applied against Canadian source income in the amount of $204,995 (1998 - $325,762).

The losses expire as follows:

	(000s) $
2000	56
2001	149
	205

The consolidated financial statements do not reflect the benefit of losses carried forward for tax purposes.

9. RELATED PARTY TRANSACTIONS

The Company had the following transactions with companies that are either controlled by an officer of the Company or in which an officer owns a significant interest:

	1999 (000s) $	1998 (000s) $
General and administrative expenses	**156**	126
Property and operating costs	**30**	75
Deferred charges	**496**	49
Buildings	**914**	-

Included in accounts payable and accrued liabilities is $1,977,021 (1998 - $295,546) related to these transactions.

10. FINANCIAL INSTRUMENTS

The carrying amounts of financial instruments included in the balance sheets approximates their fair value. It is management's opinion that the Company is not exposed to significant interest or credit risk arising from these financial instruments.

11. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using the year 2000 dates is processed. In addition, similar problems may arise in some systems, which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure, which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

Notes to the Consolidated Financial Statements
Years Ended May 31, 1999 and 1998

12. SEGMENTED INFORMATION

	Canada		United States		Consolidated	
	1999 (000s) $	1998 (000s) $	**1999 (000s) $**	1998 (000s) $	**1999 (000s) $**	1998 (000s) $
Rentals	**1,141**	855	**1,059**	450	**2,200**	1,305
Interest	-	-	**6**	7	**6**	7
Total revenue	**1,141**	855	**1,065**	457	**2,206**	1,312
Depreciation and amortization	**(118)**	(96)	**(127)**	(46)	**(245)**	(142)
Interest on long-term debt	**(588)**	(444)	**(594)**	(120)	**(1,182)**	(564)
Property and operating costs	-	(24)	**(116)**	4	**(116)**	(20)
Provision for income taxes	**(5)**	(5)	**(17)**	(37)	**(22)**	(42)
Segmented earnings	**430**	286	**211**	258	**641**	544
General and administrative					**(434)**	(268)
Foreign currency translation (loss) gain					**(59)**	2
NET EARNINGS					**148**	278
SEGMENT ASSETS	**7,582**	7,629	**14,542**	8,393	**22,124**	16,022
EXPENDITURES FOR SEGMENT CAPITAL ASSETS	**17**	3,133	**6,429**	5,490	**6,496**	8,623

Revenues from one tenant in the United States represent $614,000 of the Company's total consolidated rental revenues. This tenant has been leasing space since August 1991 and the current lease expires in September 2009.

Kane Investment Corp.

Administration Office:	Suite 260, 3015 – 12 St. N.E., Calgary, Alberta T2E 7J2 Phone: (403) 291-3010 Fax: (403) 291-3591 Email: chisholh@norcalgroup.com Internet: http://www.norcalgroup.com/kane/
Officers:	Hardy Nielsen – President & Chief Executive Officer Robert W. Thomas – Secretary/Treasurer
Auditors:	Deloitte & Touche, Calgary, Alberta
Transfer Agent:	CIBC Mellon Trust Company 600 The Dome Tower 333 – 7th Ave. S.W., Calgary, Alberta T2P 2Z1
Bank:	Canadian Western Bank 2810 32nd Ave. N.E., Calgary, Alberta T1Y 5J4 MegaBank of Arapahoe 1401 Seventeenth St. Denver, Colorado 80202 KeyBank National Association Suite 410, 3600 South Yosemite Street Denver, Colorado 80237
Alberta Stock Exchange:	Symbol – KIC Security # 367229 Cusip # 483901104
Capitalization:	Total common shares issued and outstanding – 6,454,844

COMMERCE CENTRE

DENVER, COLORADO

Turning property into opportunity